



A Comparative Study on Crowdfunding in the United States and the United Kingdom

Duyen Dai Chu, University of Lincoln

e-mail:14490128@students.lincoln.ac.uk

ABSTRACT

This research is aimed to discover how crowdfunding has evolved in two different national contexts, the UK and the US, over the past few years. It is also to assess and compare the impacts of the new crowdfunding regulations on the practical development of this industry in the two countries. In order to effectively address the research questions, the researcher selected to apply the philosophical stance of pragmatism, the inductive approach, the mixed methods and the archival and documentary research strategy. The comparative research design enables not only a detailed and intensive study of the two cases of the UK and the US but also a comparison between the two specific national contexts. The findings of the research reveal that in spite of different contexts, crowdfunding has witnessed an impressive increase in both the UK and the US over the past few years. Moreover, although the UK and the US are both in the vanguard of setting out specific regulations on crowdfunding, the scope of implementation differs considerably in each country. As a result, the impacts of the new regulations on the development of crowdfunding in the two countries are slightly different. Despite general positive impacts, the swift implementation of the new regulation places the UK in the global leading role in this field, while the long delayed implementation has negative influences on the development of crowdfunding in the US to some extents.

1. INTRODUCTION

In the wake of the 2007 global economic recession, crowdfunding began to develop phenomenally (Belleflamme et al., 2013). According to data from Statista (2012), the global crowdfunding funding volume witnessed a dramatic increase from \$530 million in 2009 to over \$2.8 billion in 2012. The 2015 crowdfunding industry report of Massolution highlights that global crowdfunding volume reached \$34.4 billion in 2015, more than doubling that of 2014 (Crowdsourcing, 2015). A report by World Bank predicts that global crowdfunding volume will be more than \$300 billion by 2025 (Meyskens and Bird, 2015). Kuti and Madarasz (2014) argue that it is a timely combination of three main factors that enables digitised crowdfunding to flourish at such an impressive pace. They are the limited access to capital due to the tighter regulations after the economic crisis, the development of digital technology and the financial innovation.

Traditional crowdfunding operates only on the basis of donations and rewards (Figliomeni, 2014). Apart from those two traditional forms, digitised crowdfunding also involves two more investment forms: equity-based and loan-based.

Crowdfunding is attracting more and more attention of practitioners, scholars and policy-makers (Belleflamme et al., 2013). Due to its newly emergent nature, crowdfunding has been understudied. This research is going to shed a light on this issue by conducting a comparative study on crowdfunding in the UK and the US. It is aimed to explore how the same phenomenon, crowdfunding, develops in different national contexts, specifically in the UK and the US; study the two countries' new regulations on crowdfunding; and then explore how these new regulations influence on the practical development of crowdfunding in these two markets.



The rest of this paper is structured into four main parts. First, the literature on crowdfunding in general and crowdfunding in the two national contexts of concern will be presented. In the next part, methodology of the research is discussed, which is followed by findings and discussion. The last part is the conclusion on this study and implications for future research.

2. LITERATURE REVIEW

2.1. Crowdfunding

2.1.1. Definition:

According to Tomczak and Brem (2013), there exist numerous definitions of crowdfunding, which is echoed in Golic (2014). Accordingly, by studying the relevant literature in this area, Golic (2014) concludes that there is not a universally accepted and comprehensive definition of crowdfunding. Hogan (2014) also admits that it is difficult to define crowdfunding. Therefore, the aim of this part is to provide a review of definitions of crowdfunding in current available literature.

Lawton and Marom (2012) argue that crowdfunding is a technique that uses online platforms to raise funds in order to finance business projects. In Boslaugh (2013) crowdfunding is defined as a method in which a “crowd” of people who share an interest contribute money to fund a charity or business idea. Crowdfunding is also defined as a process in which a small amount of money is solicited from the public in order to provide finance for a project or a start-up business idea (Young, 2014). Similarly, Antonenko et al. (2014) argue that crowdfunding involves a process taking place via an online platform in which ideas initiated by an individual or an organisation are funded by groups of people sharing the same interest. Also concerning the geographical issue in crowdfunding, Borello et al. (2015) consider crowdfunding as an innovative financing practice in which individuals, who may live in different areas but have the same interest, are willing to contribute a specific amount of money in order to finance a project.

There are also definitions of crowdfunding which take a perspective from business ventures. Crowdfunding can be seen as a fundraising technique in which a business proposes an “open call” to get money from a “crowd” of individuals in order to fund its business idea (Macht and Weatherston, 2014). Crowdfunding can also be seen as a new financing method by which small contributions of money are solicited via online platforms in order to capitalise a popular business (Freedman and Nutting, 2015).

From the same perspective, Reiser and Dean (2015) define crowdfunding as a practice of obtaining funds from a number of investors, making use of internet-based platforms in order to address the gap in financing for companies and projects. Within the scope of a 2014 research, Carni contends that crowdfunding is a micro-financing process using internet-based portals to solicit funds from groups of people in order to capitalise a start-up or the expansion of a business.

Furthermore, some researchers try to define crowdfunding by analysing the origin of the word “crowdfunding” itself. Ahlers et al. (2015) argue that crowdfunding is a “generic term” which is used to identify an increasingly popular fundraising practice in which groups of individuals contribute money to support a particular project. Borello et al. (2015) contend that crowdfunding originates from crowdsourcing which is the process of financially contributing to the creation and fulfillment of a new business idea. Crowdfunding refers to circumstances whereby many people give typically small amounts of money to projects and ideas via online platforms. They, however, underline that this broad definition misses individual crowdfunding, which is the circumstance when ideas and projects are funded directly and not via online platforms.

Tomczak and Brem (2013) provide a more detailed explanation. In their 2013 research, they argue that in order to properly define crowdfunding, it is necessary to define the root word that crowdfunding originates from, which is “crowdsourcing”. They explain that the word “crowdsourcing” was



originally used by the writer Jeff Howe of Wired magazine. It is defined as the act of taking a job traditionally performed by a designated agent (usually an employee) and outsourcing it to an undefined, generally large group of people in the form of an open call (Unterberg, 2010). Tomczak and Brem (2013) then define crowdfunding by making use of that definition of outsourcing but replace the word “job” by such words as funding or loan.

Accordingly, crowdfunding can be defined as “the act of taking a loan/funding traditionally performed by a designated agent and outsourcing it to an undefined, generally large group of people in the form of an open call”.

In brief, there seems to be a consensus among researchers in current available literature that crowdfunding is an innovative fundraising practice in which money is solicited from a number of individuals via an internet-based platform in order to finance a shared purpose.

2.1.2. Typology of crowdfunding:

In the current literature, the classification of crowdfunding is divided into three main schools. In the first school, researchers argue that there are only two major models of crowdfunding. For examples, Boslaugh (2013) contends that there are two main crowdfunding models, namely donation-based crowdfunding and investment crowdfunding. In donation-based crowdfunding, people voluntarily make financial contributions to support a project and then receive something as souvenirs or nothing in return. In investment crowdfunding, people make financial contributions by buying equity or debts of a company. Similarly, Deschler (2014) categorises crowdfunding into securities crowdfunding and non-securities crowdfunding. In their research, Rechtman (2014) argues that there are two main crowdfunding models, namely reward-based crowdfunding and the charity-based crowdfunding. Accordingly, reward-based crowdfunding is the model in which people contribute money to fund a project and then receive non-financial things in return, for example a film ticket or a T-shirt. In the charity model, a number of people

contribute money to fund a specific charity idea.

In the second school, crowdfunding is divided into three major models. Vien (2015) divides crowdfunding into reward-based, donation-based and equity crowdfunding. Similarly, Metrejean and McKay (2015) classify crowdfunding into three typical forms: reward-based, donation-based and equity-based crowdfunding. Equity crowdfunding is a newly-updated concept in which an enterprise sells its equity to a large number of investors in return of financial contributions.

In the third school, researchers contend that there are four major models of crowdfunding: equity-based, lending-based, reward-based and donation-based. This classification of crowdfunding was used in Wieck et al. (2013) and then has been echoed in numerous studies since then, such as Kuti and Madarasz (2014), Carni (2014), Meyskens and Bird (2015), Borello et al. (2015) and Vogel (2015). Lending-based crowdfunding is also known as peer-to-peer lending.

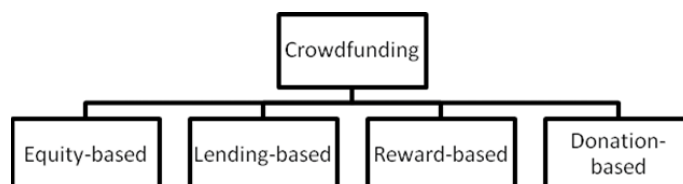


Figure 1: Classification of crowdfunding. (Source: Adapted from Wieck et al. (2013))

2.1.3. Major components and process of crowdfunding:

Studies in the existing literature such as Golic (2014), Dragojlovic and Lynd (2014), Meyskens and Bird (2015), Valenciene and Jegeleviciute (2014) and Gabison (2015) agree that there are three main components in crowdfunding: campaign initiators, intermediary platforms and the crowd funders.

The main components and process of crowdfunding are explained comprehensively and specifically in Golic (2014). Golic identifies three main components in the process of crowdfunding, including project initiators (entrepreneurs, individuals), an internet-based intermediary

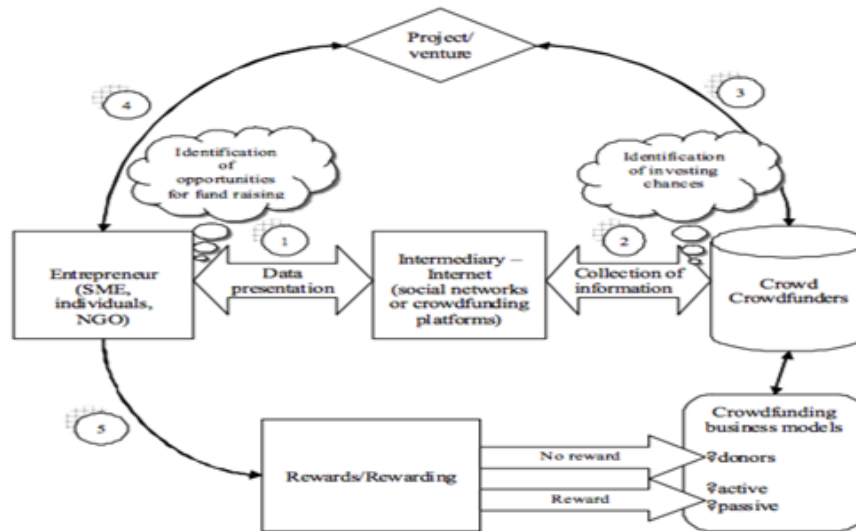


Figure 2: Figure 2: Main components and process of crowdfunding. (Source: Adapted from Golic (2014))

platform and the crowd funders.

It is clearly seen that crowdfunding actors consisting of campaign initiators on the one side and financiers on the other side. Between them there is an internet-based intermediary through which they communicate. Initiators try to raise funds for their projects/ventures through crowdfunding. Financers are a large group of investors who recognise the potential and are interested in the projects. Intermediary is an internet-based platform where all communication and fundraising activities take place.

Crowdfunding platforms are also known as crowdfunding portals or crowdfunding sites. Dragojlovic and Lynd (2014) divide them into two groups depending on the way they behave with the collected money. The first group is called “all-or-nothing”, in which if the initial funding target is not achieved after a fixed amount of time, the money is refunded to investors. The second group is “take-all”, in which the platforms allow initiators to keep all the collected money even though the campaign fails to meet the initial funding target. In both cases, the platforms are paid by a specific rate of proceedings from the successful crowdfunding campaigns.

Regarding crowdfunding process, Golic (2014), Meyskens and Bird (2015), and Valenciene and Jegeleviciute (2014) all identify five main steps



Figure 3: Crowdfunding process for social venture. (Source: Adapted from Meyskens and Bird (2015))

which can be illustrated in Figure 3.

Similarly, Valenciene and Jegeleviciute (2014) develop a framework describing three main components and five typical steps of crowdfunding (Figure 4).

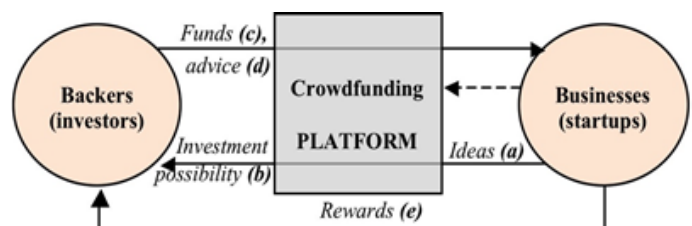


Figure 4: A framework of the crowdfunding process. (Source: Adapted from Valenciene and Jegeleviciute (2014))

2.1.4. Limitations and risks in crowdfunding:

The limitations and risks of crowdfunding have also been studied in current literature. Turan (2015) argues that crowdfunding is not without limitations, especially limitations of “regionality”. In other words, the benefits provided by crowdfunding is often impaired by cultural and linguistic differences. Although Agrawal et al. (2014) argue



that the geographical issue in crowdfunding is less serious than in other traditional types of funding decisions, Kuti and Madarasz (2014) prove that in lending-based crowdfunding, funders tend to contribute to projects in the same geographical areas with them.

There exists negative views on crowdfunding. Dorff (2014) argues that equity crowdfunding will mostly produce poor returns. Vien (2015) also argues that although crowdfunding is a crucial alternative source of financing for start-ups, in many cases the entrepreneurs are not well-prepared, which normally results in the failure of such businesses. Kuti and Madarasz (2014) contend that crowdfunding activities can sometimes be used as a channel for money laundering. In addition, investors have limited exit options. Regarding equity crowdfunding, Lev-Ram and Wagner (2013) raise concerns about online fraud and bad investment decision by inexperienced investors.

Numerous researchers focus on regulatory risks in financial return crowdfunding. Turan (2015) argues that investors in crowdfunding are operating in relatively less regulated and consequently less secure environments. Heminway (2014) focuses on the disclosure regulation from the perspective of securities crowdfunding. Accordingly, information asymmetries among market participants can have negative effects on the markets in which information is used. Bradley and Luong (2014) argue that crowdfunding platforms have not been fully regulated yet. This situation has negative implications for both entrepreneurs and investors.

In the case of equity-based crowdfunding, disclosure and reporting regulation is challenging, given that it applies to a hard-to-define, unstructured future and existing crowd of investors, who are difficult to classify according to geographical or financial status, social standing, financial awareness or any other criteria (Kuti and Madarasz, 2014). In addition, this crowd is driven and supported by the internet, where members of affinity groups are connected through "social technologies". Yamen and Bartholomew (2015) argue that crowdfunding

is not totally under the control of current available laws and regulations, which causes numerous risks to investors and may create a hub for fraudulent schemes, including market manipulation schemes, multi-level marketing and Ponzi scheme. Similarly, Borello et al. (2015) contend that crowdfunding is largely still an unregulated activity.

Without well-developed regulation, crowdfunding can easily turn into fraud-funding (Hazen, 2012). In a research focusing on equity crowdfunding, Cumming and Johan (2013) give an example when an entrepreneur may squander the proceeds, or raise equity capital through crowdfunding and then subsequently issue more shares to himself/herself, thereby diluting the equity stake held by the crowd investors. Entrepreneurs may simply pay themselves more and not invest in appropriate projects with the money raised. In Reiser and Dean (2015), crowdfunding is therefore condemned as little more than an "alluring trap", which may cause great harm to unprofessional investors.

Examining current regulatory options, Beatty et al. (2015) underline that many countries, including Australia, are grappling with developing an appropriate regulatory framework for crowdfunding. Marakkath and Attuel-mendes (2015) argue that this irrelevant regulatory environment can sometimes cause enterprises to resist crowdfunding. In Gleasure (2014), a case study of 20 entrepreneurs suggests that resistance is influenced by entrepreneurs' fear of disclosure, fear of visible failure, and fear of projecting desperation.

2.2. Crowdfunding in United Kingdom and the United States

2.2.1. Crowdfunding in the United Kingdom:

The United Kingdom (UK) is among countries in the vanguard of crowdfunding. In 1997, the UK rock band named Marillion succeeded in raising more than £35,000 from people on the internet in



order to fund their first tour of the United States in the same year (Weinstein, 2014). Weinstein (2014) argues this can be seen as the earliest instance of crowdfunding success in the Internet age.

The UK has become a “hotbed” of crowdfunding activities over the past few years. In 2014, Nesta in collaboration with the University of Cambridge carried out a study on the dynamics, growth and trends of the UK crowdfunding industry. According to the findings of that study, crowdfunding has developed rapidly in the UK. A recent report of Crowd Fund Beat also contends that crowdfunding is growing by leaps and bounds globally but the UK is taking the lead (Crowd Fund Beat, 2015). Using a data-driven approach, research by the Department for Business Innovation & Skills of British Business Bank examined the scope and impact of crowdfunding in the UK (British Business Bank, 2014). The report then concluded that crowdfunding was a catalyst for the creation of a new funding landscape in the UK.

In 2014, the UK alternative finance market reached £1.74 billion, approximately tripled that of 2013, which was £666 million (Nesta, 2014). According to Crowdfunder, a UK crowdfunding platform directory, there were about 87 crowdfunding platforms operating in the UK by the end of 2014 (Crowdfunder, 2015). Crowdfunding activities in the UK are classified into four categories, namely donation-based crowdfunding, reward-based crowdfunding, loan-based crowdfunding and equity-based crowdfunding.

In 2012, the UK Crowdfunding Association (UKCFA) was established by fourteen crowdfunding business (UKCFA, 2015). Currently, most of the authorized crowdfunding businesses in the UK are members of UKCFA.

Regarding legislation, crowdfunding in the UK is regulated by the Financial Conduct Authority (FCA) (Weinstein, 2014). The UK regulation on crowdfunding complies with the specific directives and regulation on crowdfunding of the European Union.

Although crowdfunding has witnessed a steep growth over the past few years, specific crowdfunding legislation seems to lag behind. It was not until August 2012 that the first public notice about crowdfunding platforms was issued. According to the notice, the crowdfunding platforms were only allowed to target people who were certificated as sophisticated investors and aware of the risks involved in investing in crowdfunding. In 2013, investment-based crowdfunding platforms in the UK were affirmed to be regulated like broker-dealer (Gabison, 2015).

In October 2013, FCA published a consultation paper detailing its proposed rules on crowdfunding (FCA, 2014). In March 2014, the UK specific regulation on crowdfunding by the FCA was officially completed, then came into effect on 1 April 2014. The FCA rules regulate loan-based (or lending) crowdfunding and investment-based crowdfunding (FCA, 2014). Donation-based crowdfunding and reward-based crowdfunding fall out of the scope of FCA securities regulation because they do not involve financial investment return (Osborne Clarke, 2014). On 3 February 2015, FCA issued a report on its first review of the implementation of the UK crowdfunding regulation (Robinson, 2015). FCA carried out a full review of crowdfunding market and regulatory framework in 2016.

2.2.2. Crowdfunding in the US:

In spite of its burgeoning popularity in the Internet era, Boslaugh (2013) argues that crowdfunding is not a new concept in the United States (US). For instance, money was solicited from the public to pay for the pedestal for the Statues of Liberty in 1884. Taking another example, Barack Obama succeeded in raising 500 million dollars for his presidential campaign in 2008 by using crowdfunding (Cunningham, 2012). Bruntje and Gajda (2015) argue that digitized form of crowdfunding originated from the US.

Crowdfunding has been developing dynamically in the US since 2007 when the economic crisis broke out (Bruntje and Gajda, 2015). Many world leading



crowdfunding portals are based in the US, such as Kickstarter and Indiegogo (Bruntje and Gajda, 2015). President Obama hailed crowdfunding as a “game changer” (Deschler, 2014) and it has become a major component of the president’s jobs agenda (Hogan, 2014). In March 2012, the National Crowdfunding Association was established, representing the interests of both the investors and companies in the US (National Crowdfunding Association, 2015).

Some optimistic US economists contend that crowdfunding will enable a transformation of private capital markets and even Wall Street in the near future (Freedman and Nutting, 2015). Duncan Niederauer, CEO of NYSE Euronext predicts that crowdfunding will become a major channel of funding SMEs. Mary Jo White, the Chairman of the US Security and Exchange Commission (SEC) says that crowdfunding heralds a period of transformative change in capital form action.

Similar to the situation in the UK, the US legislation seems to lag behind the development of crowdfunding. In the wake of the 2007 economic recession, crowdfunding began to develop phenomenally in the US. However, not until 2012 did the US Congress pass the Jumpstart Our Business Startups (JOBS) Act, which is specifically aimed to regulate crowdfunding (Freedman and Nutting, 2015). On 5th April 2012, JOBS Act was signed by President Obama to become law (Barnett, 2015). The US directed SEC to set out and implement specific rules on crowdfunding.

However, the implementation of the US has undergone a long delay with various stages. It was not until September 2013 that Title II of the JOBS Act became the first part to be implemented (Barnett, 2015). This was the first US rule to regulate crowdfunding investors and public advertising of fundraising. After Title II, SEC began to deal with Title III and other parts of the JOBS Act. It was not until 30th October 2015 that SEC completed and publicised its final rules for Title III of the JOBS Act (Crowded Market, 2015). The complete version of the US specific regulation on crowdfunding only

came into full effect at the start of 2016.

3. METHODOLOGY

3.1. Research design and method

Research designs are frameworks which shape the process of collecting and analysing data in order to answer research questions (Ghauri and Gronhaug, 2005). In this research, the comparative design is used. In a comparative research design, two or more cases are studied using identical methods (Bryan and Bell, 2011). Comparative research design has the logic and nature of comparison. Accordingly, it can help to understand social phenomenon better when they are compared in different contexts. In a comparative research design, a researcher can compare and contrast the analysis results of each case, which then enables the researcher to figure out the unique and the common point between cases. Comparative design can be seen as the extension of case study design, in which both quantitative and qualitative methods can be used (Ghauri and Gronhaug, 2005). Consequently, comparative study can be associated with both theory generation and theory testing.

Adams and Bomhoff (2012) argue that comparative research is carried out with specific contexts. In this study, the comparison is based on the detailed and intensive study of the two cases, the UK and the US. Using the same methods and research strategy, data on the development of crowdfunding in the UK and the US were collected. This data consists of longitudinal statistics on the volume of crowdfunding, the number of platforms, the characteristics of investors and the most popular categories in each country. The time frame for the data collection was between 2012 and 2015.

The analysis of these data revealed the practical development of crowdfunding in each country. It then enabled a comparison in order to identify the similarities and differences in the development of crowdfunding in these two countries. The comparison helps to gain greater awareness and a deeper understanding of the same phenomenon



in different contexts (Bryan and Bell, 2011). In this case, it offers an insight into how crowdfunding develops in two different national contexts.

A similar approach is applied to compare the regulations on crowdfunding and their impacts on the operational development of the crowdfunding industry in the UK and the US. The qualitative data of the regulations on crowdfunding in each country were collected. The analysis of this data provided an overview of the regulations of each country on crowdfunding, which then became the basis for comparing them against each other. The comparison again helped to identify the similarities and differences in the regulations of the two countries on three participants of crowdfunding: platforms, investors and fundraisers.

In order to assess the impacts of the new crowdfunding regulations on the practical development of crowdfunding in each country, the quantitative data on the volumes of crowdfunding industry in each country were collected. This data was the statistics on the volumes of crowdfunding industry in the UK and the US after the new regulations came into effect in each country. The analysis of this data could help to understand how crowdfunding developed in each country after the introduction of the new regulations. In other words, it helped to assess whether the new regulations had negative or positive impacts on the practical development of crowdfunding in each country.

3.2. Data

Applying archival and documentary research strategy, all of the data used in this research is secondary data. In order to compare the difference in the development of crowdfunding in the UK and the US, data on the total volumes and growth rates of crowdfunding in these two countries was collected. The data on crowdfunding volumes of the UK and the US was extracted from the annual or biennial reports on crowdfunding of Massolution. Massolution is an international research and advisory firm specialising in crowdfunding. The statistics on the crowdfunding volumes were also extracted from the special reports on crowd-

funding of Nesta. Nesta in collaboration with the University of Cambridge have published numerous reports on crowdfunding.

The data on the number of crowdfunding platforms in the UK and the US was collected and cross-checked from various directories of crowdfunding platforms such as Statista, Crowdfunding Centre and Crowdfunderbeat. The number of UK crowdfunding platforms was also found in CrowdingIn, a specific and frequently updated website on the platforms and the crowdfunding industry in the UK. The UK Crowdfunding Association and the US National Crowdfunding Association also offered a directory of the member crowdfunding platforms in each country.

The data on the characteristics of investors was based on the surveys in the research of Nesta and the two statistics portals on crowdfunding: the American Dream Composite Index and Statista. The data on the top ten most popular categories of crowdfunding projects in each country was based on the statistics of the Crowdfunding Centre and a number of platforms in each country. The Crowdfunding Centre is a website where the statistics on crowdfunding, including the most popular projects in each country, are regularly updated. Due to the time constraints, the researcher only chose two platforms in each country to follow. They were Crowdcube and Zopa in the UK and Kickstarter and Indiegogo in the US. They were among the biggest platforms in each country and ranked in top ten global crowdfunding platforms by April 2015.

The qualitative data on the crowdfunding regulation was extracted from the websites of the official legislative organs of each country, FCA in the UK and SEC in the US. In order to assess the impact of regulations, quantitative data on the volumes of crowdfunding in each country after the regulations were set out were collected from the Nesta reports and websites on crowdfunding, such as Crowdfunderbeat, Crowdfunder Insider, Crowdfundermapped, Crowdfunder Watch and Crowdfunder Wisdom.



4. FINDINGS AND DISCUSSION

4.1. Development of crowdfunding in the UK and the US

This part will compare the development of crowdfunding in these two countries. In order to have a clear and comprehensive insight into these two markets, the development of crowdfunding in the UK and the US is compared in terms of market size and all three participants of crowdfunding, namely platforms, investors and fundraisers.

4.1.1. Market size:

In terms of market size, the comparison is based on the data on the total volume of crowdfunding industry in the UK and the US collected between 2012 and 2015 (Figure 5).

Year	US	UK
2012	\$1.6 billion	£267 million
2013	\$4.40 billion	£666 million
2014	\$11.56 billion	£1.74 billion
2015	\$36.17 billion	£3.2 billion

Figure 5: Market size comparison. (Source: Extracted from Reports of Massolution and Nesta)

In 2012, the total amount of money raised through crowdfunding platforms in the UK was £267 million. In the same year, the total volume of crowdfunding industry in the US was \$1.6 billion (about £1.06 billion), approximately doubling that of the UK.

However, crowdfunding grew with an impressive pace in both the UK and the US. In the UK, annual crowdfunding volume witnessed a threefold increase per year and reached £3.2 billion in 2015. Similarly, the total amount of money raised via crowdfunding portals in the US also witnessed a dramatic growth of threefold and reached \$36.17 billion in 2015. In 2015, the size of crowdfunding industry in the US was approximately ten times bigger than that in the UK, a much widening gap in comparison to 2012.

In terms of market size, crowdfunding developed

phenomenally in both the UK and the US between 2012 and 2015. It is also clearly seen that the volume of crowdfunding in the US market is much bigger than that of the UK during this period, of more than tenfold.

The volume of crowdfunding is consistent with the size of the two economies. However, the total volume of crowdfunding in these two countries is still quite modest in comparison to the total size of the two economies, though they are pioneers in this burgeoning industry. According to the data of World Bank, the GDP of the UK in 2012 was more than \$2 trillion while that of the US was well above \$16 trillion.

These modest volumes may have two implications. On the one hand, it reflects the fact that crowdfunding is just a very new phenomenon. Data on those totals was collected a little more than five years after crowdfunding had started to flourish in the US and then in the UK. On the other hand, these modest volumes also imply that there is a great potential for the development of crowdfunding in both countries.

4.1.2. Platforms:

The comparison in this part is based on the data on the number of crowdfunding platforms in the UK and the US, collected between 2012 and October 2015.

Year	US	UK
2012	191	44
2013	344	87
2014	402	98
2015	442	104

Figure 6: Platform comparison. (Source: Statista, Crowdfunding Centre, Crowdfundingbeat, CrowdingIn, UKCFA)

In 2012, there were 44 crowdfunding platforms in existence in the UK. In the same year, there were 191 active crowdfunding portals in the US, which was nearly five times as many as in the UK. In 2013, the number of crowdfunding sites in the UK enjoyed a sharp growth to 87, doubling the number



of the previous year. Similarly, the number of crowdfunding portals in the US witnessed a steep rise to 344, an increase of more than 180% and quadrupled that of the UK in the same year. Most recently, there have been about 104 crowdfunding platforms operating in the UK by October 2015. In the same period, there have been 442 active crowdfunding portals in the US.

In crowdfunding, an internet-based platform is the place where all the interactions between fundraisers and the investors take place. The more platforms there are, the more options that project initiators and funders can choose from. Therefore, the number of platforms in existence can also reflect the crowdfunding market size in each country. The number of crowdfunding platforms has grown dramatically in both the UK and the US over the past few years, which is consistent with the growing pace of the industry in these countries. However, the active crowdfunding platforms in the US have always outnumbered those in the UK by approximate four times, which partly explains why the annual total volume of crowdfunding in the US has constantly been much bigger than that of the UK in the same period as mentioned above.

4.1.3. Characteristics of crowd funders:

The crowdfunding investors in the UK are compared to those in the US in terms of age group, income and gender. In the UK, investors who are under 35 years old are most likely to invest in equity-based crowdfunding while those in the age group of between 35 and 54 years old are more likely to invest in donation and reward-based crowdfunding. In terms of income, people who annually earn more than £50,000 are most likely to invest in crowdfunding projects. Regarding gender, males are more likely to engage in crowdfunding than females.

In the US, people who are in the age group from 24 to 35 years old are most likely to invest in crowdfunding. Given income, people with incomes of more than \$100,000 (about £66,000) are most likely to become funders in crowdfunding projects. In regard of gender, males are more likely to take

part in crowdfunding activities than females.

The characteristics of investors in the two countries are quite similar in terms of age group, income and gender. They tend to be males, in the age group of under 35 years old and with income of more than £50,000. These characteristics may derive from both the newly emergent nature of crowdfunding as a new field of investment and the psychological characteristics of investors. As crowdfunding is a brand new channel of investment, numerous aspects of crowdfunding have not fully developed and the specific regulations on crowdfunding are being completed. It is inevitable to contain a lot of uncertainties and risks, and not all types of investors are willing to take risks and invest their money in crowdfunding. Therefore, it is understandable when investors are still sceptical about the potential of crowdfunding as a new field of investment. Investors who are willing to engage crowdfunding can be characterised as risk-takers. In addition, one typical characteristic of crowdfunding is to solicit many small contributions from many people, which is quite suitable for people at the above mentioned age group and income level. Psychologically, young males of under 35 years old could be likely to take risk than females. People who are of higher age groups may be less willing to take risk (Nesta, 2014).

4.1.4. Compare fundraisers:

There are various aspects of fundraisers that can be compared, for example age group, background, project idea and so on. However, in the scope of this research, project idea is the aspect that is selected to compare. Accordingly, this part helps to discover which are the most popular categories that projects idea in the UK and in the US belong to (Figure 7).

Figure 7 demonstrates the top 10 most popular categories in the UK and in the US. They are listed in a descending order of popularity. It can be easily seen that the most popular categories in the two countries during this period are quite similar. The common categories consist of community, film, music, publishing, technology, art, fashion, design



and food. However, the position of each category in the list is different. For example, community is the most popular category in the UK while film is the most popular one in the US. There is one category that belongs to the top ten in the UK but not in the US and vice versa. In the UK, it is category of theatre while that is “games” in the US. These results are relatively consistent over years of consideration. In general, the most popular categories of projects initiated through crowdfunding are quite similar in the UK and the US.

US	UK
Film	Community
Music	Film
Technology	Music
Publishing	Publishing
Food	Technology
Art	Art
Design	Fashion
Community	Theatre
Fashion	Design
Games	Food

Figure 7: Top 10 most popular categories in the US and the UK and US NFCA. (Source: Crowdfunding Centre)

4.2. Crowdfunding regulations and their impacts in the UK and the US

4.2.1. Regulations:

The new regulations in the US and the UK regulate all three participants in crowdfunding process, namely crowdfunding platforms, crowdfunding raisers and crowdfunding investors.

4.2.1.1. Regulation on platforms

In regard of crowdfunding platforms, the two regulations are quite similar. Both regulations in the UK and the US require that funds are raised from the crowd through a crowdfunding platform and this platform must be registered to the national licensing authority as a broker. The national licensing authority here is the FCA in the case of the UK and the Security and Exchange Commission (SEC) in

the US. Platforms are also required to perform their diligence on the fundraisers and make sure that the investors understand all the risks involved. In the UK, platforms are required to ask the retail investors to pass a so-called “appropriateness test” in order to certify that they understand the risks involved with their investing in crowdfunding. Similarly, in the US, the platforms have the responsibility to check the fundraisers’ profiles carefully in order to assure that a project is not a fraudulent scheme.

Nevertheless, there is a difference in the two regulations on crowdfunding platforms. In the UK, in order to protect investors from potential risks, loan-based crowdfunding platforms are subject to minimum capital requirements. The minimum capital requirements are made up by the minimum capital that a platform has to have initially and the volume-based requirement. The minimum capital level is at least £50,000. The volume-based requirement is calculated based on the total value of active projects on that platform: 0.2% for volume from 0 to £50 million, 0.15% for >£50 million to £250 million, 0.1% for >£250 million to £500 million and 0.05% for >£500 million. In the US, platform business models are controlled. Accordingly, crowdfunding platforms in the US are required to employ the “all-or-nothing” model.

4.2.1.2. Regulation on fundraisers

In respect to fundraisers, both the two national regulations define who can raise funds from the crowds, but in different manners. In both countries, there is a limit on the total amount of funds that can be raised within a 12-month period for fundraisers if they would like to have the status of exemption. In other words, fundraisers are allowed to organise multiple crowdfunding efforts within a period of 12 months. The maximum limits are cumulative over all those crowdfunding efforts.

Nonetheless, the caps of funds raised in order to be able to enjoy the status of exemption in the two regulations are different. In the UK, fund-seekers are allowed to raise a maximum of 5 million in a 12-month period in order to avoid having to comply



with the prospectus requirement. In the US, in order to enjoy the exemption under the JOBS Act, the company must be a US corporation. Fundraisers can solicit up to \$1 million (about 725,000) within a period of 12 months. In addition, the fundraisers have to meet the filing requirements, depending on the total amount of money they successfully raised: for less than \$100,000, only a tax return is required; between \$100,000 and \$500,000, a financial statement which is reviewed by an independent public accountant is required; over \$500,000, an audited financial statement is required. In addition, the fundraisers have to meet the filing requirements, depending on the total amount of money they successfully raised: for less than \$100,000, only a tax return is required; between \$100,000 and \$500,000, a financial statement which is reviewed by an independent public accountant is required; over \$500,000, an audited financial statement is required. In addition, the US regulators allow fundraisers in this country to resell the shares after one year. In other words, the shares stemming from equity crowdfunding can only become tradable after a 12-month period.

4.2.1.3. Regulation on investors

Concerning the third participant of crowdfunding, current regulations in the UK and the US have different approaches to the investors. In the UK, the regulations are more concerned with retail investors. Accordingly, crowdfunding platforms are only allowed to accept contributions from retail clients who are certified or self-certified as sophisticated investors and aware of sequential risks that their investments may involve. In addition, the retail investors are restricted not to invest more than 10% of their net investible portfolio within a 12-month period. The professional investors can invest without limits. In other words, anyone (retail investors) can invest up to 10% of their net worth as long as they sign the requested statement and there is no limited amount for professional investors. Foreign investors are allowed to invest in the UK crowdfunding market as long as they comply with the country's regulations.

In the US, investors are allowed to invest up to a relevant annual threshold, depending on the wealth of the investors. Investors can invest up to \$2,000 if the total value of their income and net worth are less than \$40,000. Investors are allowed to invest up to 5% of income and net worth if the total value of their income and net worth are less than \$100,000. Investors are allowed to invest up to 10% of income and net worth if the total value of their income and worth are over \$100,000. There is no limit amount for professional investors. It is notable that regulations on crowdfunding have lagged behind despite crowdfunding developing rapidly in both countries. As the two pioneers in crowdfunding, there are numerous similarities in the regulations of the two countries. However, there are also various differences that should be taken into account. The current regulations in the UK and the US regulate all three participants in crowdfunding process, namely crowdfunding platforms, crowdfunding raisers and crowdfunding investors. However, the scope and the implementation of the two regulations differ greatly.

Regarding platforms, regulators in both the UK and the US require platforms to be registered and regulated as "brokers". There are also regulations in both countries that are aimed at protecting the investors engaging in crowdfunding. In the UK, the minimum capital requirements that the platforms are required to meet ensure that even when these platforms unfortunately go bankrupt, most of the investors can get their investments back. However, this rule can prevent numerous platforms coming into existence, consequently slowing down the pace of platform growth in the UK. In the US, there is no minimum capital requirement but the platforms are required to apply the "all-or-nothing" model only. This model is proved to be more useful to avoid fraudulent schemes, consequently protecting the investors.

Given fundraisers, the cap of funds raised in order to enjoy exemption status in the UK (5 million within 12 months) is higher than that in the US (\$1 million within 12 months). This means investors in the UK are able to operate more projects and raise



more funds than those in the US at the same period of time.

Concerning to investors, current regulations in the UK and the US have different approaches. The UK regulations focus on regulating who can invest and the amount they can invest while the US regulators limit how much and how frequently people can invest. Accordingly, every qualified investor in the UK is allowed to invest up to 10% of their assets while regulators in the US set out different investment thresholds for different levels of investors and the maximum threshold is 10%. This difference implies that the US regulations limit the investing crowd while the UK extends the investing crowd within limits.

4.2.2. Impacts of new regulations on the development of crowdfunding:

In order to evaluate the impact of the introduction of the new regulations, the statistics on the growth of crowdfunding in the UK and the US between 2013 and 2015 were collected. As the new regulations only aim to regulate investment-base crowdfunding (not including reward-based and donation-based crowdfunding), only the data on equity and loan-based crowdfunding were collected and compared. If crowdfunding still witnesses high growth rates, the introduction of the new regulations may have positive impact. On the contrary, if the growth of crowdfunding slows, the introduction of the new regulation may have a negative influence.

Year	Equity	Loan-based crowdfunding
2013	£28 million	£480 million
2014	£84 million	£1.3 billion
2015	£332 million	£3.01 billion

Figure 8: Equity and loan-based crowdfunding in the UK between 2013-2015. (Source: Nesta reports)

In the UK, crowdfunding witnessed a positive and robust growth after the new regulation came into effect. In 2014, the total value of loan-based crowdfunding reached £1.3 billion, tripling the amount

of £480 million raised in 2013. In 2015, the volume of loan-based crowdfunding continued increasing threefold to reach £3.01 billion. Similarly, equity-based crowdfunding witnessed a sharp growth from £28 million to £84 million, an increase of 300%. In 2015, the equity crowdfunding grew threefold to reach £332 million.

In the US, investment-based crowdfunding also witnessed high growth rates between 2013 and 2015.

Year	Equity	Loan-based crowdfunding
2013	\$86.29 million	\$3.15 billion
2014	\$271.74 million	\$8.61 billion
2015	\$590.90 million	\$28.24 billion

Figure 9: Equity and loan-based crowdfunding in the US between 2013-2015. (Source: Nesta reports)

Loan-based crowdfunding increased more than twofold from 2013 to 2014, followed by a threefold increase in 2015. The growth of equity crowdfunding was about threefold from 2013 to 2014 but slower in 2015.

On the one hand, crowdfunding regulations in the UK and the US can have a positive impact on the crowdfunding activities for many good reasons. Due to the fact that it is only a burgeoning industry, crowdfunding – particularly investment-based crowdfunding – is characterised as highly risky. However, regulators in the two countries have set out specific rules regulating all three participants of crowdfunding. The rules on investors make sure that funders are legally protected when they engage in crowdfunding projects. The rules on platforms and fundraisers help to prevent crowdfunding projects from becoming fraudulent schemes and again to protect the investors. Therefore, the regulations may make crowdfunding industry in the UK and the US become less risky and more attractive to potential investors.

On the other hand, the regulations can be a factor slowing the growing pace of crowdfunding down. In the US, the delayed implementation of



SEC caused a number of states to set out their own rules, which limit the development of crowdfunding to intra-state scope. As there is a lack of guidance on the implementation of the new regulation at federal level, states may interpret the new regulation differently, leading to the intra-state scope development of crowdfunding. The limits on platform operating model and filing responsibilities, and on the investors' tiered investment thresholds, to some extent limit the potential of crowdfunding. In the UK, the regulations extend the crowd of investors but still within a limit. This may be an obstacle preventing more potential investors investing in crowdfunding.

5. CONCLUSION

This research provides a comparative study on crowdfunding in the UK and the US. The findings reveal two major interesting points. First, crowdfunding has witnessed an impressive growth in both the UK and the US over the past few years all in terms of crowd fundraisers, platforms and crowd funders. It is also notable that the annual volume of the crowdfunding market in the US has always been much bigger than that in the UK. Second, there are numerous similarities as well as differences between the two countries' regulations on crowdfunding. The two countries both introduced new regulations very early, though the pace of implementation differs slightly, which in turn has an impact on the development of crowdfunding.

However, there are some limitations in the research. First, the use of secondary data offers the researcher little real control over the samples on the characteristics of crowdfunding investors. Second, there are various aspects of fundraisers that can be used to compare, but this research only covers the most popular categories of projects. Third, due to the fact that both the crowdfunding industry and regulations in the two countries are quite new, the data used in this research may only reflect the very early stage of development of crowdfunding in the two countries. Similarly, the impacts of regulations on the development of crowdfunding in this research are of very short

term in comparison to the huge potential of this industry in the future. Last but not least, the comparative study in this research is limited in terms of geography. In other words, it only covers two very specific countries with two very specific national contexts.

The limitations of the research imply some issues for future research. Future researchers may collect more complete and updated empirical data to compare other characteristics of fundraisers in the two countries, for example age group and income levels. Future research can also conduct a similar comparative study in other national contexts. Particularly, a comparative study on crowdfunding between a developed country and a developing country may offer numerous interesting findings and implications.

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About the Author:

Duyen Dai Chu is now a PhD candidate at Lincoln International Business School, University of Lincoln. His PhD research focuses on Crowdfunding, especially investment-based models like equity and lending. He is also an Associate Lecturer in various undergraduate and postgraduate modules such as Finance and Accounting, Strategic Management, Research and Consultancy Methods.

